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C O N F I D E N T I A L AMMAN 000965

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STATE ALSO FOR P, E, EB, IO, PRM
NSC FOR EDSON, ABRAMS
TREASURY FOR QUARLES
CENTCOM FOR POLAD
DOD FOR OSD

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TAGS: [EFIN](#) [ETTC](#) [PREF](#) [IZ](#) [JO](#)

SUBJECT: O-F-F CONTRACT EXPOSURE OF JORDANIAN BANKS

REF: A. AMMAN 313

[1](#)B. AMMAN 793

Classified By: CDA GREGORY L. BERRY. REASONS 1.5 (B) AND (D).

[1](#)1. (C) In response to the repeated requests from senior Jordanians that the USG ask the UN to modify Oil for Food Program (OFF) procedures so as to minimize the risk to the Jordanian banking system of contracts that cannot be delivered to Baghdad under wartime circumstances (ref a), the Ambassador urged Foreign Minister Marwan Muasher on February 5 and Prime Minister Ali Abul Ragheb on February 6 to approach the Office of the Iraq Program (OIP) directly. The Ambassador said that Jordan was in the best position to make the most compelling and substantiated case about the exposure of Jordan's banking system.

[1](#)2. (C) Muasher replied that the GOJ would like the UNSC to approve an alternate site in Jordan to which OFF goods could be delivered and the terms of the suppliers' contracts considered complete. The GOJ had not made a formal approach to OIP to suggest such a plan, he commented, on the advice of the Jordanian Ambassador in Washington, who recommended that Jordan "wait a couple of weeks" based on his contacts with the USG. When the Ambassador raised the subject with PM Abul Ragheb, the PM immediately called Muasher to make sure that the Jordanian mission in New York was prepared to make such an approach to OIP.

[1](#)3. (c) Comment: The potential described by the Jordanian government of even limited bank failures to have a widespread ripple effect on the banking system and the economy as a whole appears well-founded. Even though the banking system as a whole is well-capitalized, a few individual banks are heavily exposed to OFF contracts. In several cases, these same individual banks were already weakened by the Shamailah banking scandal earlier this year, with two of them taken over by the Central Bank for restructuring (ref b). The CBJ currently believes that it has the resources to handle an expected low-level of capital flight at the beginning of a conflict. However, if even isolated banks should be unable to make good on their commitments because of defaults on OFF contracts and further central bank takeovers were required, limited capital flight could quickly become major capital flight in what would be an already deeply unsettled political environment.

[1](#)4. (c) Such a scenario could jeopardize the payments system and shake the economic -- and political -- confidence in which the United States has invested so much in Jordan. This is not a risk worth running. Reasonably, the Jordanians think they will not get anywhere with the OIP or UN Secretariat without U.S. support. It only seems prudent for

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the United States to intervene now with the UN to ensure that this issue is managed so as not to cause unnecessary economic or political problems directly contrary to U.S. interests.

[1](#)5. (c) We also point out the importance PRM PDAS Rich Greene recently described to us of keeping OFF deliveries flowing into Iraq during and especially after a conflict. The Jordanians may have alerted us to a potential weak link in the financial network that supports OFF deliveries. A mechanism that allowed goods to be held outside Iraq for immediate delivery in Iraq as soon as conditions permitted would seem to reduce the chances of a blockage in OFF flows. Indeed, the potential for such a blockage appears from the fact that Jordanian bankers tell us that they have substantially reduced their financing of OFF contracts in response to the financial risk described above. This has, they say, been reflected in a probable curtailment by more than half of OFF flows to Iraq via Jordan over the past six-eight months.

BERRY